



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

Legislative Retirement Note

BILL NUMBER: House Bill 115 (First Edition)
SHORT TITLE: Retirement Technical Corrections Act of 2017.-AB
SPONSOR(S): Representatives Ross and McNeill

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; local government funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), and Disability Income Plan (DIP).

BILL SUMMARY:

Section 1: Changes the definition of average final compensation in TSERS and LGERS to clarify that the value of vacation leave payout will only be included if it is received during the highest four consecutive years of compensation. This aligns the statute with longstanding administrative practice.

Section 2: Amends educational leave statutes in TSERS and LGERS to further clarify that members on educational leave for programs where they receive a stipend, but not other forms of compensation, are eligible to purchase their service.

Section 3: Amends G.S. 135-48.12 to require the Committee on Actuarial Valuation of Retired Employees' Health Benefits to adopt a funding policy. This requirement is related to new governmental accounting standards.

Section 4: Modifies the Iran Divestment Act to reduce administrative burden.

Section 5 and 7: Make changes to statutes governing other Department of State Treasurer programs that are not retirement systems or pension funds and therefore not addressed in this note.

Section 6: Adds DIP to the list of funds in G.S. 147-69.2 that are invested by the Treasurer. This is currently provided in the DIP statutes.

Section 8: Repeals requirement to make rules by December 31, 2016 on an investment reporting topic deemed by the Rules Review Commission staff to not be appropriate subject matter for promulgation.

EFFECTIVE DATE: The bill becomes effective when it becomes law.

ESTIMATED IMPACT ON STATE: Both Conduent, the System’s Actuary, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact on the contribution rates or liabilities of any of the systems affected.

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2015 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>DIP</u>
Active Members			
Count	305,291	124,974	321,718
General Fund Compensation	\$10,185M		\$11,363M
Valuation Compensation (Total)	\$13,897M	\$5,869M	\$15,560M
Average Age	45	44	Not avail.
Average Service	10.7	10.2	Not avail.
Inactive Members			
Count	143,214	59,289	0
Retired Members			
Count	201,522	63,110	6,709
Annual Benefits	\$4,202M	\$1,182M	\$76M
Average Age	71	68	Not avail.
New Retirees During 2016	11,100	4,100	863

Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>LGERS</u>	<u>DIP</u>
Accrued Liability (AL)	\$71,522M	\$24,360M	\$396M
Actuarial Value of Assets (AVA)	\$66,169M	\$23,649M	\$440M
Market Value of Assets (MVA)	\$62,669M	\$22,404M	\$427M
Unfunded Accrued Liability (AL - AVA)	\$5,353M	\$711M	(\$44M)
Funded Status (AVA / AL)	93%	97%	111%
Required Employer Contribution for FY 2017-18 (as % of pay)	10.33%	7.50% (non-LEO)	0.14%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 8.10%
Assumed Rate of Investment Return	7.25%	7.25%	3.75%
Cost Method: Entry Age Normal			
Amortization: 12 year, closed, flat dollar			
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015			

Benefit Provisions			
	<u>TSERS</u>	<u>LGERS</u>	<u>DIP</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	65% of base salary up to a maximum of \$3,900 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	Any/5
Employee contribution (as % of pay)	6%	6%	0%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

SOURCES OF DATA:

Conduent, “Retirement Technical Corrections Act of 2017 – House Bill 115”, February 24, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 115: An Act to Make Technical Corrections and Other Conforming Changes to the Laws Governing the TSERS, LGERS, and Other Related Statutes”, February 21, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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DATE: February 27, 2017

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